

BEFORE  
THE PUBLIC SERVICE COMMISSION OF  
SOUTH CAROLINA  
DOCKET NO. 2005-113-G - ORDER NO. 2005-619  
OCTOBER 31, 2005

IN RE: Application of South Carolina Electric & Gas Company for Adjustments in the Company's Gas Rate Schedules and Tariffs	) ORDER APPROVING ) SETTLEMENT ) AGREEMENT AND ) INCREASE IN GAS ) RATES AND CHARGES
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**I.**

**INTRODUCTION**

This matter is before the Public Service Commission of South Carolina ("Commission") on the Application of South Carolina Electric & Gas Company ("SCE&G" or the "Company"), filed April 26, 2005, for adjustments in the Company's natural gas rate schedules and tariffs, and for certain changes in the Company's General Terms and Conditions for service ("Application"). The Application was filed pursuant to *S.C. Code Ann.* § 58-5-240 (Supp. 2004) and 26 *S.C. Code Ann. Regs.* 103-834, as amended.

The Company's gas rates and tariffs were last approved by the Commission in Order No. 89-1074, issued November 30, 1989, in Docket No. 89-245-G, wherein the Commission ordered a prospective rate increase for the Company of \$10,139,314 annually. The rates and tariffs requested in the Company's Application in the present docket would produce an increase in annual revenues of approximately \$28,482,731 and provide a return on common equity of 11.75 percent, according to the Company's

calculations. SCE&G requested that the proposed increase go into effect for bills rendered on and after November 1, 2005 (i.e., the first billing cycle of November).

In its Application, the Company also proposed to maintain its market-based pricing flexibility under the Industrial Sales Program – Rider (“ISP-R”) and to provide a new method of accounting for the margin revenues from interruptible sales. Under the proposed method, the net proceeds of interruptible service (less certain costs of interruptible service) would be credited to the demand charge component of the firm cost-of-gas calculation. The Company also proposed a methodology to account for revenue generated by the future release or remarketing of upstream transportation, storage and other assets at such time as its upstream supplier unbundles its merchant service. Under that methodology the Company would credit 75% of the net revenue received from such remarketing or release to the demand charge component of its firm cost-of-gas calculation and retain 25% outside of regulated revenues as an incentive for effectively remarketing these assets. The Company further proposed to collect and amortize Environmental Clean-up Costs (“ECC”) through base rates rather than through the current volumetric ECC factor of \$0.008/ therm.

On May 18, 2005, the Commission’s Docketing Department instructed the Company to publish a Notice of Filing and Hearing in newspapers of general circulation in the area affected by the Company’s Application. The Notice of Filing and Hearing indicated the nature of the Company’s Application and advised all interested Parties desiring participation in the scheduled proceeding of the manner and time in which to file appropriate pleadings. The Company was also required to notify directly all customers

affected by the proposed rates and tariffs. The Company furnished affidavits demonstrating that the Notice was duly published in accordance with the Docketing Department's instructions and certified that a copy of the Notice was mailed to each affected customer.

Petitions to intervene were received from the United States Department of Defense and Federal Executive Agencies ("DOD") represented by David A. McCormick, Esq., Mr. Frank Knapp, Jr. *pro se* ("Mr. Knapp"), and the South Carolina Energy Users Committee ("SCEUC") represented by Scott Elliott, Esq. The Office of Regulatory Staff ("ORS"), automatically a party pursuant to S.C. Code Ann. § 58-4-10(B), was represented by Shannon Hudson, Esq., C. Lessie Hammonds, Esq., and Florence P. Belser, Esq.

SCE&G was represented by Catherine D. Taylor, Esq., Patricia Banks Morrison, Esq., Belton T. Zeigler, Esq. and Mitchell M. Willoughby, Esq.

ORS made on-site investigations of the Company's facilities, audited the Company's books and records, and gathered other information concerning the Company's gas operations.

On August 10, 2005, ORS, on behalf of all parties, informed the Commission that all Parties had entered into a comprehensive stipulation and Settlement Agreement ("Settlement"). The Settlement is attached hereto as Order Exhibit No. 1 and incorporated herein by this reference. Representatives of ORS, SCEUC, DOD, and SCE&G, along with Frank Knapp, Jr., (collectively referred to as the "Parties") were signatories of the Settlement. The Parties reached a comprehensive settlement on all issues and stipulated

to an increase in the Company's revenue of \$22,857,839 and a return on equity of 10.25%. Attached to the Settlement were the following Exhibits: Exhibit A, Testimony of Jay R. Jashinsky; Exhibit B, Testimony of Jimmy E. Addison; Exhibit C, South Carolina Electric & Gas Company Operating Experience – Total Gas for Test Year ended December 31, 2004, and Explanation of Accounting and Pro Forma Adjustments; and Exhibit D, Tariffs, Rate Schedules and Terms and Conditions of Service.

After reviewing the Settlement Agreement and related exhibits, the Commission issued a supplemental agenda for a specially called meeting. Following the special meeting on August 23, 2005, the Commission issued a Directive ("Directive") appointing Joseph Melchers as hearing officer and requesting additional information on the following from the Parties to the Settlement:

1. The rate of return of each customer class for the test year and the projected rate of return of each customer class listed in the Settlement Agreement, including information on any supporting data or calculations used in deriving the rates of return by customer class which may be helpful to the Commissioners in evaluating the agreed upon rate design.
2. A more detailed explanation of the new Residential Value Service Rate including the number or percent of customers projected to qualify for this program, with a particular focus on whether the projections consider the potential impacts of higher rates on consumption.
3. Provide information regarding the market factors that led to the creation of new Rate 33 and how the rate was derived.
4. A more detailed explanation of the modifications to the ISP-R, focusing on the rationale for changing the cost of gas component in the ISP-R and how it was determined.
5. A more detailed explanation of the modifications to the Cost of Gas factor including the two-part Demand and Commodity rate structure and the calculation of monthly over and under collections.

6. Information on the physical work that remains for Environmental Clean-Up, with a focus on an explanation as to how the Company will ensure that consumers do not pay twice for Environmental Clean-Up during the transition from collecting these costs in the PGA to collecting them in base rates.
7. Supporting evidence to allow the Commission to evaluate the adjustments to depreciation rates.

The Parties filed testimony from Kenneth R. Jackson, Carey Flynt, and John Spanos in response to the Directive. Additionally, they submitted, as a supplemental exhibit, Exhibit No. KRJ-3 to Kenneth Jackson's testimony on September 16, 2005.

The Commission held a hearing on this matter on September 19, 2005. The Settlement Agreement and all exhibits thereto, including the testimony of witnesses Addison and Jashinsky, were introduced and accepted into the record at the hearing without cross-examination by any party. Witnesses Jackson, Flynt, and Jashinsky appeared and were examined by the Commission. At the request of two of the Commissioners, SCE&G also filed on September 21, 2005, Late-Filed Hearing Exhibit No. 4.

## **II.**

### **ADOPTION OF SETTLEMENT AGREEMENT**

Based on the stipulations and agreements contained in the Settlement, the testimony and exhibits attached to the Settlement, and the testimony submitted in response to the Directive, the Commission adopts, as a comprehensive compromise settlement on all issues, all terms and provisions of the Settlement as just and reasonable. The Commission also specifically adopts as just and reasonable the rates and rate schedules, the Tariffs, and Terms and Conditions of Service attached as Exhibit D to the

Settlement. The Settlement and all of its exhibits are hereby incorporated by this reference and made a part of this Order.

**III.**

**DEPRECIATION RATES**

In the Settlement, the Parties stipulated that “the Company should be permitted to record depreciation going forward based on the depreciation rates associated with individual plant accounts.” Settlement at p. 6. The Commission adopts the proposed adjustment to the depreciation rates and authorizes the Company to book depreciation going forward by individual plant account as reflected in Exhibit C to the Settlement.

**IV.**

**ENVIROMENTAL CLEAN-UP COST AMORTIZATION**

As the Settlement provides, SCE&G may continue to defer and collect environmental clean-up and response costs (“ECC”) related to its Manufactured Gas Plant sites in the regulatory asset accounts it currently maintains pursuant to Order No. 94-1117, dated October 27, 1994. Until further order of this Commission, SCE&G may amortize the amounts reflected in these accounts by means of an annual amortization in the amount of \$1,428,827 and recognition of an annual amortization expense of that same amount.

V.

**NATURAL GAS RATE STABILIZATION ACT**

In the Application SCE&G elected to have the rates established in this proceeding come under the Natural Gas Rate Stabilization Act (“RSA”), S.C. Code §§ 58-5-400 *et. seq.* (2005). Pursuant to the RSA Section 58-5-420(1), the Commission is required to specify a range for SCE&G’s cost of equity that includes a band of fifty basis points (0.50 percentage points) below and fifty basis points (0.50 percentage points) above the cost of equity on which rates have been set. Based on the stipulations of all Parties in the Settlement, and the cost of equity of 10.25% therein established, the Commission specifies a range of 9.75% to 10.75% as the range of return on equity to be used in administering the provisions of the RSA for SCE&G until further order.

The RSA at Section 58-5-420(2) requires the Commission to make findings related to specific categories of revenue, expense and investment. All the required findings are set forth in Exhibit C of the Settlement which is incorporated as part of this Order.

**DECREE**

WHEREFORE, it is ordered:

1. That the Settlement entered into by all of the Parties to this docket is adopted as just and reasonable.
2. That South Carolina Electric & Gas Company shall implement the rates, charges, terms and conditions attached hereto as Order Exhibit No. 1, Exhibit D thereto, for bills rendered on and after the first billing cycle of November 2005.

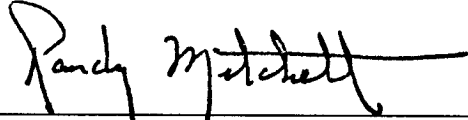
October 31, 2005

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3. That this Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

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Randy Mitchell, Chairman

ATTEST:

A handwritten signature in black ink, appearing to read "G. O'Neal Hamilton", written over a horizontal line.

G. O'Neal Hamilton, Vice Chairman

(SEAL)

BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 2005-113-G

August \_\_, 2005

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COMMISSION

IN RE:

Application of South Carolina

Electric & Gas Company for

Adjustments in the Company's

Natural Gas Rate Schedules and Tariffs

SETTLEMENT AGREEMENT

This Settlement Agreement is made by and among the Office of Regulatory Staff ("ORS"), South Carolina Energy Users Committee ("SCEUC"), the United States Department of Defense ("DOD"), Frank Knapp, Jr. ("Knapp"), and South Carolina Electric & Gas Company ("SCE&G" or "the Company") (collectively referred to as the "Parties" or sometimes individually as "Party").

WHEREAS, the Company has prepared and filed an Application seeking certain changes in its natural gas rates, charges, terms and conditions of service, and tariffs;

WHEREAS, the above-captioned proceeding has been established by the South Carolina Public Service Commission ("Commission") pursuant to the procedure established in § 58-5-240 (Supp. 2004), and the Parties to this Settlement Agreement are parties of record in the above-captioned docket. There are no other parties of record to the above-captioned proceeding;

WHEREAS, the Company has elected to have the terms of S.C. Code Ann. § 58-5-400 *et seq.* ("Natural Gas Rate Stabilization Act") apply to its rates and charges for gas distribution service;

WHEREAS, since the filing of the Application, ORS has propounded numerous discovery demands to SCE&G, and the Company has prepared in response thereto hundreds of pages of information related to the matters at issue in this docket and has provided those responses to ORS and all other Parties;

WHEREAS, ORS has audited the books and records of the Company relative to the matters raised in the Application;

WHEREAS, the Parties have varying legal positions regarding the issues in this case;

WHEREAS, the Parties have engaged in discussions to determine if a settlement of the issues would be in their best interests;

WHEREAS, following those discussions the Parties have each determined that their interests and the public interest would be best served by stipulating to a comprehensive settlement of all issues pending in the above-captioned case under the terms and conditions set forth herein;

WHEREFORE, the Parties hereby stipulate and agree to the following terms, which, if adopted by the Commission in its Order on the merits of this proceeding, will result in rates and terms and conditions of natural gas service which are just, reasonable, nondiscriminatory, and supported by the evidence of record of this proceeding, and which will allow the Company the opportunity to earn a reasonable rate of return.

1. The Parties agree that no evidence will be offered in the proceeding by the Parties other than: (1) the Application filed by the Company, and (2) this Settlement Agreement with Exhibits A-D attached hereto.

2. The Parties stipulate and agree to the testimony of Jay Jashinsky and Jimmy Addison attached hereto as Exhibits A and B respectively, without objection, change, amendment, or cross-examination, and in the case of Mr. Addison, without his taking the stand.

3. The Parties stipulate and agree that the accounting exhibits prepared by ORS and attached hereto as Exhibit C fairly and reasonably set forth the Company's operating expenses, pro forma adjustments, depreciation rates, rate base, return on equity, revenue requirement, and rate of return on rate base.

4. The Parties stipulate and agree that the tariffs attached hereto as Exhibit D, including the rate schedules and terms and conditions of service, are fair, just, and reasonable. The Parties further stipulate and agree that these tariffs and rates are reasonably designed to allow the Company the opportunity to recover the revenue required to earn a fair return on its assets and to provide service to its natural gas customers at rates and terms and conditions of service that are fair and reasonable.

5. ORS is charged by law with the duty to represent the public interest of South Carolina pursuant to S.C. Code § 58-4-10(B) (added by Act 175). S.C. Code § 58-4-10(B)(1) through (3) reads in part as follows:

... 'public interest' means a balancing of the following:

- (1) concerns of the using and consuming public with respect to public utility services, regardless of the class of customer;
- (2) economic development and job attraction and retention in South Carolina; and
- (3) preservation of the financial integrity of the State's public utilities and continued investment in and maintenance of

utility facilities so as to provide reliable and high quality utility services.

ORS believes the agreement reached among the Parties serves the public interest as defined above. The terms of this Settlement Agreement balance the concerns of the using public while preserving the financial integrity of the Company. ORS also believes the Settlement Agreement promotes economic development within the State of South Carolina. All Parties stipulate and agree to these findings.

6. As a compromise to positions advanced by ORS, SCEUC, DOD, Knapp, and SCE&G, all Parties stipulate and agree to the proposal as outlined below. In its Application, SCE&G has requested an increase in annual revenues of \$28,482,732. The Parties agree for purposes of this settlement that this proposed revenue increase shall be reduced as noted on the following table:

CALCULATION OF REVISED TOTAL ANNUAL INCREASE IN REVENUE

\$28,482,732.00	Requested revenue requirement
-\$3,317,908.00	Reduction in ROE (150 basis points from 11.75% to 10.25%)
-\$1,770,163.00	O&M expenses
-\$13,837.00	Depreciation and amortization expenses
-\$221,253.00	Taxes other than income
-\$268,635.00	Interest on customer deposits
-\$33,097.00	Reduction resulting from adjustments to rate base
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\$22,857,839.00	Total annual increase in revenue

7. In its Application, the Company requested a return on equity of 11.75%. While the Company believes that this requested return on equity is appropriate and fair, it nonetheless recognizes the value of resolving this proceeding by settlement rather than by litigation and, therefore, along with the other Parties, stipulates and agrees for purposes of settlement in this

case that a return on equity of 10.25% is just and reasonable under the specific circumstances of this case in the context of a comprehensive settlement.

8. The Parties stipulate and agree that the accounting and pro forma adjustments and depreciation rates reflected on Exhibit C are fair and reasonable, and should be adopted. The Parties further stipulate and agree that the Company will monitor by quarter its expenses related to pipeline integrity and will provide that information to ORS within 45 days of the end of each quarter.

9. As a compromise to positions advanced by ORS, SCEUC, DOD, Knapp, and SCE&G, all Parties further stipulate and agree to the conclusion of witness Addison on behalf of SCE&G in his testimony attached hereto as Exhibit B that a 10.25% return on equity is just and reasonable under the circumstances of this case and in the context of a comprehensive settlement. This position is set out immediately below and is hereby adopted, accepted and acknowledged as the agreement of the Parties:

In the context of the present settlement agreement, which disposes of all issues in the case, rates set based on a 10.25% Return on Equity can provide investors the opportunity to earn a reasonable return on the capital they invest in the Company.

(Ex. B at 3).

10. The Parties further stipulate and agree that the stipulated testimony of record, the Application, and this Settlement Agreement conclusively demonstrate the following: (i) the proposed accounting and pro forma adjustments and depreciation rates shown on Exhibit C are fair and reasonable and should be adopted by the Commission for ratemaking and reporting purposes; (ii) a return on common equity of 10.25%, which yields a fair rate of return for the Company of 8.43%, and an annual increase in revenues of approximately \$22.9 million, is fair,

just, and reasonable when considered as a part of this stipulation and settlement agreement in its entirety; (iii) SCE&G's rates as proposed in this Settlement Agreement are fairly designed to equitably and reasonably recover the revenue requirement and are just and reasonable and should be adopted by the Commission for bills rendered by the Company on and after Cycle 1 of November 2005.

11. The Parties further agree and stipulate that: (i) SCE&G shall maintain its market-based pricing flexibility under the Interruptible Sales Program – Rider ("ISP-R") and its proposed accounting of the margin revenues from its ISP-R is reasonable and should be adopted by the Commission; (ii) SCE&G's proposal to collect and amortize Environmental Clean-up Costs ("ECC") through base rates is reasonable and should be adopted by the Commission; (iii) SCE&G's proposal to account for revenue generated by the future release of SCE&G's upstream transportation and storage assets at such a time as its upstream supplier unbundles its merchant service is reasonable and should be adopted by the Commission; (iv) SCE&G's requested depreciation rates set forth in Exhibit C are reasonable and should be adopted by the Commission and that the Company should be permitted to record depreciation going forward based on the depreciation rates associated with individual plant accounts as set forth in Exhibit C; (v) the tariffs, including rates and terms and conditions, attached hereto as Exhibit D are just and reasonable, reasonably designed, and should be approved and adopted by the Commission.

12. The Parties agree to advocate that the Commission accept and approve this Settlement Agreement in its entirety as a fair, reasonable and full resolution of the above-captioned proceeding and to take no action inconsistent with its adoption by the Commission. The Parties further agree to cooperate in good faith with one another in recommending to the Commission that this Settlement Agreement be accepted and approved by the Commission. The

Parties agree to use reasonable efforts to defend and support any Commission order issued approving this Settlement Agreement and the terms and conditions contained herein.

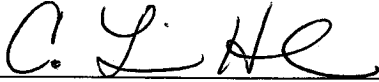
13. The Parties agree that signing this Settlement Agreement will not constrain, inhibit, impair, or prejudice their arguments or positions held in other collateral proceedings. If the Commission should decline to approve the agreement in its entirety, then any Party desiring to do so may withdraw from the Settlement Agreement without penalty or obligation.

14. This Settlement Agreement shall be interpreted according to South Carolina law.

15. The above terms and conditions fully represent the agreement of the Parties hereto. Therefore, each Party acknowledges its consent and agreement to this Settlement Agreement by affixing its signature or by authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of the agreement. Facsimile signatures and e-mail signatures shall be as effective as original signatures to bind any party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Settlement Agreement. The Parties agree that in the event any Party should fail to indicate its consent to this Settlement Agreement and the terms contained herein, then this Settlement Agreement shall be null and void and will not be binding on any Party.

WE AGREE:

**Representing the Office of Regulatory Staff**



Florence P. Belser, Esquire

Shannon Bowyer Hudson, Esquire

C. Lessie Hammonds, Esquire

**Office of Regulatory Staff**

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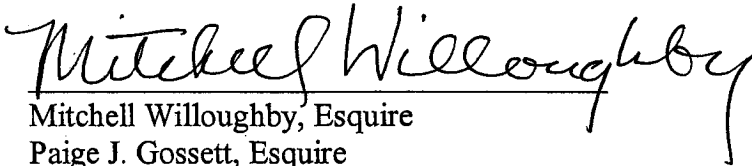
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WE AGREE:

**Representing South Carolina Electric & Gas Company**



Mitchell Willoughby, Esquire

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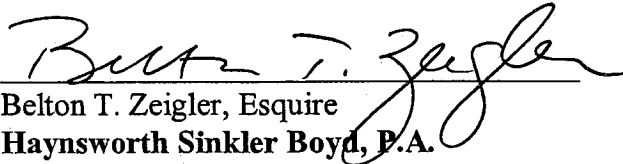
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Catherine D. Taylor, Esquire

Patricia Banks Morrison, Esquire

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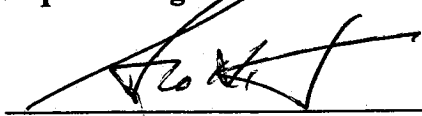
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WE AGREE:

**Representing South Carolina Energy Users Committee**

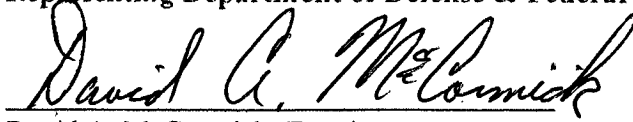


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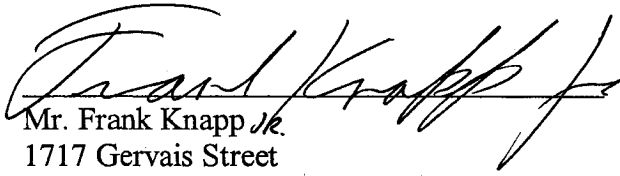
WE AGREE:

Representing Department of Defense & Federal Executive Agencies

A handwritten signature in cursive script, reading "David A. McCormick". The signature is written in dark ink and is positioned above a horizontal line.

David A. McCormick, Esquire  
General Attorney, Regulatory Law Office  
U.S. Army Legal Services Agency  
901 North Stuart Street, Room 713  
Arlington, Virginia 22203-1837

I AGREE:

A handwritten signature in black ink, appearing to read "Frank Knapp Jr.", written over a horizontal line.

Mr. Frank Knapp Jr.  
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Phone: (803) 765-2210  
E-mail: fknapp@knappagency.com